

2003-04 Resource and Expenditure Summary

This section provides a broad overview of the resources and expenditures included in the 2003-04 budget. Information is presented for general purpose, enterprise, special revenue and federal funds. General Purpose funds, which receive special attention by the community, are highlighted throughout this section. General funds are of particular importance to our residents as they provide for most basic services, such as police, fire, parks and streets. Enterprise funds are supported by fees charged for the services provided with the exception of the Civic Plaza which has earmarked sales taxes as its primary funding source. Special revenue and federal funds are restricted to specific uses.

The 2003-04 budget, financed by operating funds, totals \$2,447,899,000. As shown in the pie chart on page 21, the General Purpose Fund portion of \$892,757,000 is approximately 36 percent of the total. The Enterprise funds, which

include Aviation, Water, Wastewater, Solid Waste, Civic Plaza and Golf, make up 33 percent of the total. Special Revenue funds such as Arizona Highway User Revenues and Local Transportation Assistance and Federal funds such as Community Development Block Grants, Human Services grants and Housing grants represent the remaining 31 percent of the total budget.

In addition to presenting the budget by funding source, the budget also is described in terms of the major types of activities or expenditures funded. Included in the operating budget are operating and maintenance expenses that provide for ongoing costs of delivering city services; capital expenditures for pay-as-you-go projects for major additions, improvements or renovations to city facilities; and debt service payments to retire outstanding bonds. The pie chart on page 21 shows the distribution of the total operating

budget into these three types of expenditures. Not included in the operating budget are bonds and other capital funds used for capital improvement projects. These are included in a separate Capital Improvement Program.

Finally, budgeted expenditures are most easily understood on a departmental basis. Detailed explanations of each department's budget are provided in the Department Program Summary section of this document. The bar chart on page 21 presents the General Purpose Fund budget on a department-by-department basis.

2003-04 BUDGET OVERVIEW

The table below provides a comparison of the 2003-04 budget to the 2002-03 adopted budget. Actual expenditures for the 2001-02 fiscal year also are included.

2003-04 Budget Compared to 2002-03 Adopted Budget (In Millions of Dollars)

| | 2001-02 Actual Expenditures | 2002-03 Adopted Budget | 2003-04 | | |
|--|-----------------------------------|------------------------------|------------------|------------------|-------------------|
| | | | Budget | Amount Change | Percent Change |
| Operating and Maintenance Expenditures | \$1,533.6 | \$1,806.1 | \$1,884.3 | \$78.2 | 4.3 % |
| Capital Expenditures | 269.4 | 428.6 | 362.9 | (65.7) | (15.3)% |
| Debt Service | 203.4 | 199.6 | 200.7 | 1.1 | 0.6 % |
| Total | \$2,006.4 | \$2,434.3 | \$2,447.9 | \$(13.6) | (0.6)% |

Operating and maintenance expenditures are increased from 2002-03 for carryovers, inflationary increases and higher contingency, or "rainy day," amounts in the enterprise funds. These increases are partially offset by General Purpose Fund budget reductions.

2003-04 GENERAL PURPOSE FUND BUDGET OVERVIEW

The 2003-04 General Purpose Fund budget of \$892.8 million provides for ongoing operating and maintenance and capital expenditures. The table below compares the 2003-04 General Purpose Funds budget with the adopted 2002-03 budget.

The operating and maintenance expenditures show little growth. This is the result of inflationary increases, full-year costs for services added in mid-2002-03 and \$3.6 million in new capital project operating costs offset by \$46 million in 2003-04 budget reductions.

For 2001-02 and 2002-03, most capital improvement-type expenditures have been converted to lease purchase

financing. The 2003-04 budget returns to pay-as-you-go funding. Over the years, lease-purchase financing has provided an effective way to acquire needed equipment and repairs during periods of slow economic growth. As the economy improves, debt payments will be stepped up to reduce ongoing interest costs.

The pie charts shown on page 21 provide the 2003-04 General Purpose Fund budget summarized by major programs and major resources.

RESOURCES

Resources include beginning fund balances, fund transfers, revenues and recoveries. Generally, current revenues and fund transfers pay for current year expenses. In the enterprise funds, fund balances provide a financial cushion against unanticipated changes. The contingency allocation serves this same purpose for the General Fund. While minor changes in fund balances occur from year to year, maintaining proper fund balances over the long term and providing for a contingency fund in the General Fund are important components of sound financial management and a significant factor in bond ratings.

2003-04 Estimated Beginning Fund Balances

The estimated 2003-04 beginning fund balances of \$533.6 million include \$58.0 million in General Purpose Funds and \$475.6 million in other restricted funds. The estimated beginning fund balance for restricted funds includes: Water - \$117.7 million; Transit 2000 - \$77.7 million; Aviation - \$56.2 million; Wastewater - \$51.7 million; Arizona Highway Users Revenue - \$31.3 million; Civic Plaza - \$27.3 million; Solid Waste - \$20.9 million; Public Housing - \$20.6 million; Parks and Preserves - \$16.5 million; Development Services - \$15.6 million; Capital Construction - \$14.9 million; and \$25.2 million in various other restricted funds.

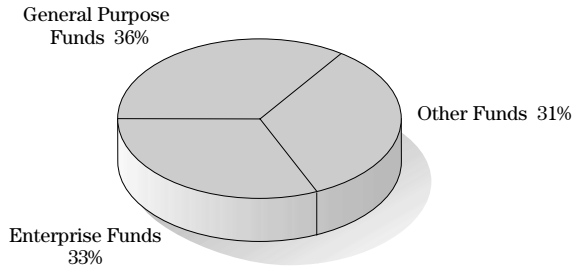
2003-04 General Fund Estimated Beginning Balance

In the unrestricted General Fund, a fund balance may not be budgeted. However, a contingency, similar to a "rainy day fund", may be planned to provide a means to address unexpected revenue decreases or expenditure increases that may occur throughout the year. Each year, most of the contingency allocation remains unused and, therefore, falls to the ending fund balance along with any changes in estimated revenues and expenditures.

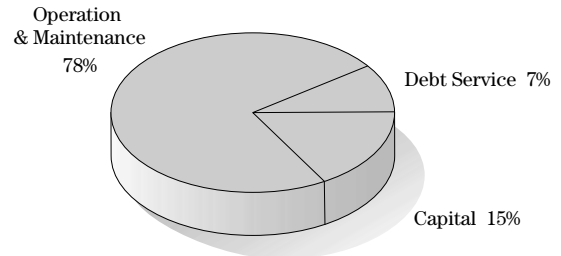
**2003-04 General Purpose Fund Budget Compared to 2002-03 Adopted Budget
(In Millions of Dollars)**

| | 2001-02 Actual Expenditures | 2002-03 Adopted Budget | 2003-04 | | |
|--|-----------------------------------|------------------------------|----------------|------------------|-------------------|
| | | | Budget | Amount Change | Percent Change |
| Operating and Maintenance Expenditures | \$762.9 | \$869.6 | \$872.1 | \$2.5 | 0.3% |
| Capital | 0.0 | 0.0 | 3.5 | 3.5 | 100.0+% |
| Lease Purchase Payments | 19.0 | 18.4 | 17.2 | (1.2) | (6.5)% |
| Total | \$781.9 | \$888.0 | \$892.8 | \$4.8 | 0.5% |

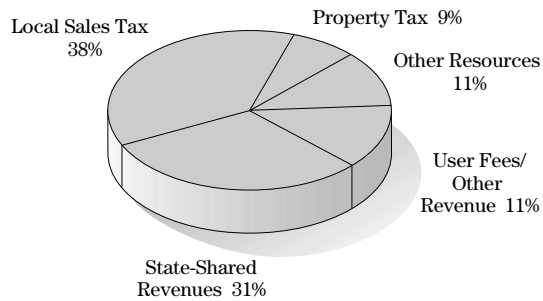
ALL SOURCES OF FUNDS
Total Resources – \$2.4 Billion



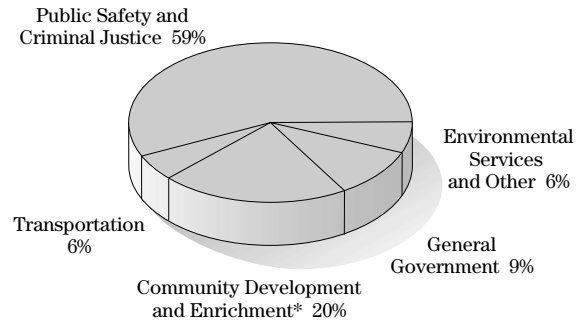
ALL SOURCES OF FUNDS
Total Expenditures – \$2.4 Billion



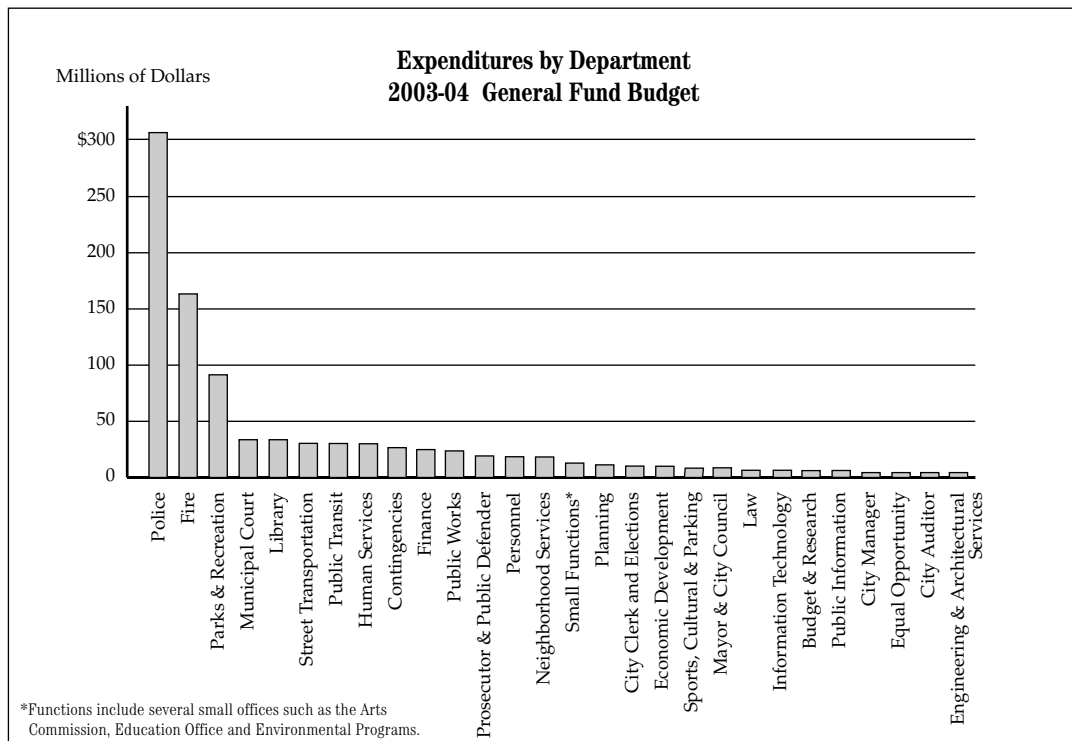
GENERAL PURPOSE FUNDS
Total Resources – \$893 Million




GENERAL PURPOSE FUNDS
Total Expenditures – \$893 Million



*Includes Parks, Library, Human Services, Neighborhood Services, Planning and Economic Development





As shown in the first table on page 23, the estimated 2003-04 beginning General Purpose Fund balance is \$58.0 million. This balance results primarily from an estimated \$19.3 million current year decrease in revenues and a \$2.3 million lower than planned beginning balance, offset by an increase of \$5.4 million in net transfers and a \$74.0 million decrease in operating expenditures. This decrease in estimated 2002-03 General Purpose Fund expenditures is largely due to Council-approved mid-year expenditure reductions of \$22 million, unused contingency funds, miscellaneous department expenditure savings and the carryover of funds to 2003-04. The majority of the revenue decrease is in local and state-shared sales taxes.

2003-04 Estimated Revenues

Revenues from taxes, fees, interest, grants and other sources provide resources to fund programs and services delivered by the City. Revenues for 2003-04 are estimated at \$2,175,125,000. This is \$45,430,000, or 2.1 percent above the 2002-03 estimate of \$2,129,695,000. General Purpose fund revenues are estimated at \$791,886,000, which is \$18,081,000 or 2.3 percent more than the 2002-03 estimates.

The second table on page 23 provides a comparison of the 2003-04 estimated revenues to 2002-03 estimates and 2001-02 actual collections. Detailed explanations by category are provided in the 2003-04 Revenue Estimates section of this document.

Estimated revenue growth for 2003-04 assumes that local and state economies will continue the slow recovery begun in calendar year 2003. As a result, local and state sales tax collections are expected to grow at a better rate than in 2002-03.

However, some of this improved sales tax revenue growth is offset by a large decline in state-shared income tax. Included in 2003-04 are full-year impacts of rate increases for Golf, Solid Waste, Water and Wastewater services.

2003-04 Transfers to the General Fund

Transfers are used to allocate resources between funds for purposes of matching costs with benefits received through a central service cost allocation or to assess in-lieu property taxes.

Transfers to the General Fund for 2003-04 total \$40.6 million. This amount reflects \$39.7 million from enterprise and other funds to recoup central service costs and/or payments for in-lieu property taxes from the Water and Wastewater, Aviation, Civic Plaza, Solid Waste and Development Services funds. Central service provides a repayment to the General Fund for services provided by departments such as Personnel, Finance, Law and other administrative support areas that are general funded. This transfer is calculated by the Finance Department in accordance with generally accepted full-cost accounting principles and is in accordance with long-established City Council-approved policy. The enterprise transfers also include \$235,000 from the Golf Course fund to recoup Parks, Recreation and Golf Department direct administrative support costs. The Golf Course fund does not pay citywide central service costs or in-lieu property taxes.

Approximately \$0.9 million in miscellaneous transfers from other funds is also included. As a result, net transfers to the General Fund exclusive of excise tax-related items are \$40.6 million. A transfer of \$551.7 million from excise tax represents the General Fund share of local and state-shared sales taxes and fees and state-shared income taxes. This amount is reflected in revenues throughout this section.

2003-04 ESTIMATED ENDING BALANCES

Year-end balances are planned in the enterprise funds and other self-supporting funds primarily to provide for adequate funds at the beginning of the following fiscal year. Such funds are used to stabilize rate increases associated with fluctuations in service demand changes, insure bondholders of future debt service payment and to accumulate funds for annual pay-as-you-go capital improvements.

The estimated 2003-04 ending balance of \$264.3 million includes: Water - \$72.9 million; Transit 2000 - \$49.1 million; Aviation - \$34.1 million; Wastewater - \$30.5 million; Civic Plaza - \$24.5 million; Solid Waste - \$17.9 million; Development Services - \$11.1 million and \$24.2 million in various other restricted funds.

Arizona budget law requires a balanced General Fund budget. No General Fund balances may be accumulated in reserve for subsequent fiscal years. Arizona law does, however, provide for a contingency or "rainy day fund" each year. For 2003-04, \$22.7 million is included for the General Purpose Fund contingency and is discussed in more detail in the Contingency section of this document. As a result, General Fund resources equal expenditures.

General Purpose Fund Balance Analysis
(In Thousands of Dollars)

| | 2001-02 | 2002-03 | | Estimate Over (Under) Budget | |
|---|------------|------------|------------|------------------------------|---------|
| | Actuals | Budget | Estimate | Amount | Percent |
| Resources | | | | | |
| Beginning Balances July 1 | \$ 45,212 | \$ 54,763 | \$ 52,509 | \$ (2,254) | (4.1)% |
| Revenue | 752,820 | 793,134 | 773,805 | (19,329) | (2.4)% |
| Recoveries | 1,957 | 2,250 | 2,392 | 142 | 6.3 % |
| Transfers | 33,716 | 37,867 | 43,299 | 5,432 | 14.3 % |
| Total Resources | \$ 833,705 | \$ 888,014 | \$ 872,005 | \$ (16,009) | (1.8)% |
| Expenditures | | | | | |
| Operating Expenditures | 762,148 | 869,657 | 796,035 | (73,622) | (8.5)% |
| Capital | 0 | 0 | 210 | 210 | 100.0+% |
| Lease Purchase Payments | 19,048 | 18,357 | 17,739 | (618) | (3.3)% |
| Total Expenditures | \$ 781,196 | \$ 888,014 | \$ 813,984 | \$ (74,030) | (8.3)% |
| Beginning Fund Balances - July 1, 2003 | \$ 52,509 | \$ 0 | \$ 58,021 | \$ 58,021 | 100.0+% |

2003-04 Estimated Revenues Compared to 2002-03 Estimates
(In Thousands of Dollars)

| Fund Types | 2001-02 Actuals | 2002-03 Estimate | 2003-04 | | |
|--------------------------|--------------------|---------------------|-------------|------------------|-------------------|
| | | | Estimate | Amount Change | Percent Change |
| General Purpose | \$ 752,820 | \$ 773,805 | \$ 791,886 | \$ 18,081 | 2.3% |
| Special Revenue Funds | 440,869 | 455,193 | 471,514 | 16,321 | 3.6% |
| Enterprise Funds | 702,491 | 736,195 | 742,955 | 6,760 | 0.9% |
| Restricted Federal Funds | 144,175 | 164,502 | 168,770 | 4,268 | 2.6% |
| Total | \$2,040,355 | \$2,129,695 | \$2,175,125 | \$ 45,430 | 2.1% |



Services to the Community

Phoenix has been a well-established economic growth area since the end of World War II. Historically, during periods of national economic expansion, the local Phoenix economy has grown much more rapidly than the rest of the United States. During periods of national recession, the local economy usually continues to expand slowly. It normally takes a prolonged period of national economic stagnation for Phoenix to experience economic decline. However, such decline is usually modest when compared to other areas of the country.

The recent economic downturn combined with the effects of the events of Sept. 11 has caused a serious budget challenge for Phoenix. Last year, the Mayor and City Council approved \$23 million in mid-year budget reductions. These reductions had no impact on services. This year, the Mayor and City Council have approved \$72 million in budget reductions including the elimination of 170 City jobs. With reductions of this magnitude, community services had to be reduced.

Also, the Development Services, Civic Plaza and Golf programs have been reduced. While these programs have dedicated, non-General Fund revenue sources, they have been impacted by the current economic downturn. Reductions in these areas will have very minimal service impact in the short-term but will keep expenditure levels in line with current revenues.

The General Fund \$72 million budget shortfall for 2003-04 resulted from several factors. First, next year Arizona cities and towns will share in the income taxes received by the State during last year's severe economic downturn. This results in a \$23 million loss in state-shared income taxes. Next, after nine months, while some stability has returned to our monthly sales tax revenues, they continue to lag behind revenues of a year ago. We expect no real improvement in growth rates until the 2004 calendar year. On the expenditure side, we will incur \$32.3 million in unavoidable cost increases next year. These cost increases include transitioning 56 police officers from expiring federal grants to the General Fund, increased jail costs, a required citywide election, employee compensation and new capital facilities

that will open next year as well as the full year's costs of facilities opened throughout this fiscal year.

Some budget additions were possible using Transit 2000, Water, Wastewater and Aviation funds. Transit 2000 will fund the first phase of Rapid Bus Service as well as provide a partnership with the City of Avondale to provide for a route extension to Estrella Mountain Community College. Water and Wastewater funds will be used to staff new facilities, improve environmental quality monitoring and improve the planning for the department's capital improvement program. Aviation funds will be used to add staff to keep up with increased growth as well as maintenance and operations of ongoing construction projects.

The chart that follows indicates how major services provided to Phoenix residents have been adjusted in response to local economic and financial conditions. Because benchmarking is an important measure of the efficiency and effectiveness of services provided, we also have included multi-city comparisons of performance in several areas. Much of the data for these comparisons is taken from the most recent International City/County Management Association's Center for Performance Measurement report. This report is for fiscal year 2001.



| PROGRAM SERVICE LEVEL IN 1981-82 | SERVICE CHANGES THROUGH 2002-03 | SERVICE CHANGES FOR 2003-04 |
|-------------------------------------|------------------------------------|--------------------------------|
|-------------------------------------|------------------------------------|--------------------------------|

PUBLIC SAFETY

POLICE**Personnel Resources:**

In 1981-82, the Police Department had 1,648 sworn officers and 606 civilian employees.

The department's community-based policing program was enhanced in 1993-94 by Proposition 301, a voter-approved one-tenth of 1 percent increase in the sales tax rate to hire 200 new police officers to expand community-based policing.

In 1994-95, the Police Department received four grants funded by the Violent Crime Control Act to further expand the department's community-based policing program by 280 new officers.

Since then, the City has transitioned all of the previously grant-funded officers to general funds. Grant funding through the Department of Justice Universal Hiring Program has enabled the department to add 209 police officers between 1999 and 2003.

The 2003-04 budget adds 25 additional police officers using the Federal Universal Hiring Grant. This grant will fund seventy-five percent of the personnel costs for three years. The budget also adds seven school resource officers (SRO). Seventy-five percent of the associated personnel costs will be funded by schools that have requested SRO positions. Seven of the current 13 DARE officers will be reassigned to these SRO positions. In addition, the 2003-04 budget adds 39 sworn positions to Sky Harbor International Airport to comply with federal security mandates. In 2003-04, the Police Department will have 2,917 sworn positions, or 2.1 for every 1,000 residents, and 932 civilian employees.

Response Time Average:

In 1981-82, the Police Department maintained a three-minute response time for Priority 1 emergency calls.

Since 1981-82, because of increased service demand, budgeted response times for Priority 1 emergency calls had increased to 4.9 minutes in 1999-00, and to 5.4 minutes in 2002-03. The overall number of dispatched calls for service also has increased 90 percent since 1981-82.

The 2003-04 budget provides for a continued 5-minute average response time for Priority 1 emergency calls.

Based on 2001 ICMA data, City of Phoenix actual response times compare favorably to those of other benchmark cities as noted below:

**Total Average Response Times
to Top Priority Calls:**

Tucson – 4 min 40 sec
San Antonio – 4 min 58 sec
PHOENIX – 5 min 12 sec
San Jose - 6 minutes
Oklahoma City – 7 min 25 sec
Austin – 8 min 34 sec



| PROGRAM SERVICE LEVEL IN 1981-82 | SERVICE CHANGES THROUGH 2002-03 | SERVICE CHANGES FOR 2003-04 |
|---|--|---|
| PUBLIC SAFETY | | |
| FIRE | | |
| <p>Response Time Average: In 1981-82, the Fire Department maintained an average response time of 3.7 minutes for all fire and emergency medical calls.</p> | <p>Since 1981-82, response times have increased 22 percent to 4 minutes 51 seconds for all fire and emergency medical calls. This is a 2 second increase over the previous year primarily due to increased population growth and traffic congestion. The overall emergency call activity level increased 32 percent during this period. The 2002-03 budget added 35 positions to staff the new Fire Station 50 located at 35th Avenue and Beardsley Road and reflects providing fire service to the Laveen area through an intergovernmental agreement with the Laveen Fire District.</p> <p>Based on 2001 ICMA data, City of Phoenix response times compare very favorably to those of other benchmark cities as noted below:</p> <p style="text-align: center;">Percentage of All Calls to Which Response Time is Under 8 Minutes:</p> <p>Oklahoma City – 91 percent Long Beach – 90 percent PHOENIX – 87 percent Austin – 87 percent San Antonio – 84 percent San Jose – 81 percent Tucson – 66 percent</p> | <p>No changes are included in the 2003-04 budget. Average citywide response times in 2003-04 are expected to be 4 minutes 53 seconds for all fire and emergency medical calls. The 4-minute response time goal is projected to be met 33.5 percent of the time.</p> |
| <p>Emergency Transportation: In 1981-82, the City of Phoenix did not provide this service.</p> | <p>The City initiated the Emergency Transportation System in 1985-86 with 10 full-time and six part-time ambulances.</p> <p>In 1987-88, the Emergency Transportation System was increased to 12 full-time and six part-time ambulances. The addition of four ambulances funded with revenue from Proposition 301 and the conversion of the department's last medic units to ambulances resulted in 19 full-time and nine part-time ambulances in service during 1997-98. The 2000-01 budget included funding to add a full-time ambulance at Station 38 in Ahwatukee Foothills.</p> <p>Two part-time ambulances were added in mid 2002-03 to improve response times in fast growing, outlying areas of the city. The Emergency Transportation System consists of 20 full-time and 11 part-time ambulances.</p> | <p>No changes are included in the 2003-04 budget.</p> |



| PROGRAM SERVICE LEVEL IN 1981-82 | SERVICE CHANGES THROUGH 2002-03 | SERVICE CHANGES FOR 2003-04 |
|-------------------------------------|------------------------------------|--------------------------------|
|-------------------------------------|------------------------------------|--------------------------------|

TRANSPORTATION

PUBLIC TRANSIT**Service Miles/Hours:**

In 1981-82, 9,768,000 annual bus service miles were provided on weekdays and Saturdays in the City of Phoenix.

In March 2000, the voters approved a four-tenths of 1 percent increase in the sales tax for Public Transit effective June 1, 2000. The tax supports expanded bus and Dial-a-Ride service in Phoenix and the construction and operation of a light rail system.

As a result of this new funding source many service enhancements have been implemented. Sunday and holiday service was implemented on all Phoenix routes; Saturday service was implemented on remaining routes not offering this service; frequencies have been increased on various routes; later evening service hours have been implemented on all Phoenix weekday and most Saturday routes; and numerous routes have been extended to service new areas.

Service enhancements also were implemented for Dial-a-Ride, including Sunday and holiday hours and increased weekday and Saturday service hours.

As a result of these continuing enhancements, annual 2002-03 bus service miles are estimated at 16,550,000 and Dial-a-Ride service hours are estimated at 315,500.

The 2002-03 budget funds new and enhanced local bus service including increased peak frequency for weekday routes (adding 520 service miles per day), extension of weekday hours to midnight on four routes (adding 610 service miles per day), implementation of two route extensions (adding 485 weekday and 475 Saturday bus miles per day and 335 Sunday/holiday bus miles per day). These service enhancements will result in an annualized increase of an estimated 650,000 bus service hours.

The budget also increases weekday Dial-A-Ride service to 1,000 weekday service hours, including reallocation of underutilized weekend/holiday service hours. This increase will result in an estimated net increase of 14,000 service hours annually. The budget also reflects a new monthly Dial-A-Ride pass for passengers certified under the Americans with Disabilities Act Requirements.

The 2003-04 budget funds new and enhanced local bus service including the extension of Route 41, Indian School Road into Avondale (adding 230.4 service miles per weekday and 179.2 Saturday service miles per day). This service enhancement will result in an annualized increase of an estimated 68,070 service miles.

The Transit 2000 referendum supports Bus Rapid Transit (BRT) service. This includes implementation of five corridors, Squaw Peak, Papago, Black Canyon, Maricopa and South Central Avenue. This new service will add 2,380 service miles per weekday for an annualized increase of 588,200 miles. The five corridors include existing express routes which will be reduced by 767 miles per weekday for an annualized reduction of 189,450 service miles. The net service miles (new service miles less reduction miles) will add 1,640 service miles per weekday for an annualized total of approximately 398,800 service miles.

The 2003-04 budget also postponed implementation of Route 32 (32nd Street from Washington Street to Union Hills Drive) and Route 90 extension (Cave Creek Road from Union Hills Drive to Deer Valley Road), and eliminated weekend and holiday Downtown Area Shuttle (DASH) service.

As a result of the continuing enhancements, as well as a full year of FY 2002-03 service improvements, annual 2003-04 bus miles are estimated at 17,200,000 and Dial-A-Ride (DAR) service hours are estimated at 315,500.



| PROGRAM SERVICE LEVEL IN 1981-82 | SERVICE CHANGES THROUGH 2002-03 | SERVICE CHANGES FOR 2003-04 |
|--|--|---|
| TRANSPORTATION | | |
| PUBLIC TRANSIT | | |
| Average Weekday Bus Ridership: In 1981-82, the average weekday bus ridership was 35,400. | Since 1981-82, average weekday bus ridership has increased to an estimated 118,000 in 2001-02. Under the 2002-03 budget, weekday ridership is estimated to rise to 125,171. | Under the 2003-04 budget, weekday ridership is estimated to rise to 126,400. |
| STREET TRANSPORTATION | | |
| Major and Collector Street Sweeping and Maintenance: | In 1992-93, the City decreased sweeping major and collector streets to every three weeks. The 2000-01 budget increased frequency of service to every two weeks to improve air quality. The budget also added capital funding to improve maintenance, pave dirt alleys and install additional sidewalks and curbs. No changes were included in the 2002-03 budget. | The 2003-04 budget reduces funding for making quick concrete repairs to infrastructure throughout the City. Funding for paving dirt alleys also was reduced as was funding for retrofitting sidewalk ramps. In addition, an asphalt crew responsible for repairing asphalt pavement on major, collector and local streets was eliminated. |
| Residential Street Sweeping: The City discontinued this program in 1981-82 except to prepare for sealcoat application. | The City restored this program to twice a year in 1984-85. The service level increased to four times a year in 1987-88. In 1991-92, the service was decreased to three times a year. In 1997-98, street sweeping frequency returned to four times a year to better coordinate with quarterly trash collection and improve the aesthetics of neighborhoods. No changes were included in the 2002-03 budget. | No changes are included in the 2003-04 budget. |



| PROGRAM SERVICE LEVEL IN 1981-82 | SERVICE CHANGES THROUGH 2002-03 | SERVICE CHANGES FOR 2003-04 |
|-------------------------------------|------------------------------------|--------------------------------|
|-------------------------------------|------------------------------------|--------------------------------|

STREET TRANSPORTATION

Sealcoat:

In 1981-82, the City of Phoenix provided 212 miles of sealcoat, including 108 miles in chip seal repairs.

The City of Phoenix eliminated the chip seal program in 1988-89. In 1989-90, the sealcoat program included funds for 149 miles. The 1992-93 budget reduced the program to 95 miles. In 1993-94 and 1994-95, 55 and 53 miles of sealcoat were applied respectively. The number of miles dropped from 1992-93 because a different treatment was used on streets where conditions required a more aggressive and costly treatment.

Beginning in 1995-96, the program was expanded to include 95 miles of sealcoat. In 1997-98, sealcoat miles increased to approximately 100 miles annually. No changes were included in the 2002-03 budget.

Based on 2001 ICMA data, City of Phoenix Paved Road Rehabilitation Expenditures per Capita compare very favorably to those of other benchmark cities as noted below:

**Paved Road Rehabilitation
Expenditures per Capita:**

Tucson – \$13.41

San Antonio – \$16.68

PHOENIX – \$16.72

Austin – \$18.21

San Jose – \$28.95

Kansas City - \$30.26

Oklahoma City – \$34.42

No changes are included in the 2003-04 budget.



| PROGRAM SERVICE LEVEL IN 1981-82 | SERVICE CHANGES THROUGH 2002-03 | SERVICE CHANGES FOR 2003-04 |
|-------------------------------------|------------------------------------|--------------------------------|
|-------------------------------------|------------------------------------|--------------------------------|

STREET TRANSPORTATION

Asphalt Overlay:

This program was initiated in 1981-82 for four miles.

This program funded 15 miles a year in fiscal years 1983-84 and 1985-86. The program decreased to 12 miles in fiscal years 1984-85 and 1986-87. Beginning in 1988-89, overlay was increased to 100 miles to replace the chip seal program. The program was increased to 120 miles in 1989-90 and was reduced to zero miles in 1991-92. The program was restored to 80 miles in 1992-93. In 1993-94, 63 miles of overlay were done with the reduction in miles from the prior year attributable to increased costs related to street overlay projects, which are partially funded with federal grants. In 1994-95, 79 miles of overlay were performed. Eighty-two miles were overlaid in 1995-96; 83 miles in 1996-97; 95 miles in 1997-98; 140 miles in 1998-99; 131 miles in 1999-00, 129 miles in 2000-01, 128 miles in 2001-02; and an estimated 128 miles in 2002-03.

No changes are included in the 2003-04 budget.

COMMUNITY DEVELOPMENT

HOUSING

Scattered Sites Housing Program:

In 1981-82, the Housing Department had 50 units.

The program expanded to a total of 470 units in 1998-99. The 2002-03 inventory of 440 reflects a new homeownership program that allows eligible tenants the opportunity to purchase their home.

Under the 2003-04 budget, the program is expected to maintain an inventory of 438 homes.

Affordable Housing Program:

This program was not available in 1981-82.

This program began in 1990-91 and has expanded to a total of 1,034 city-owned units for families and individuals.

The 2003-04 budget provides for a total of 1,434 units. This includes 400 new units added this year with 2001 bond funds.

Based on 2001 ICMA data, City of Phoenix Affordable Housing compares very favorably to those of other benchmark cities as noted below:

Total Units Completed as a Percentage of Affordable Housing Units Needed:

PHOENIX – 60.0%

Austin – 10.0%

Tucson – 2.1%

Long Beach - 0.3%



| PROGRAM SERVICE LEVEL IN 1981-82 | SERVICE CHANGES THROUGH 2002-03 | SERVICE CHANGES FOR 2003-04 |
|-------------------------------------|------------------------------------|--------------------------------|
|-------------------------------------|------------------------------------|--------------------------------|

NEIGHBORHOOD SERVICES

Neighborhood Preservation

Case Cycle Time (Days)

This program was not provided in 1981-82.

In 1995-96, 98.6 days were needed to complete a neighborhood preservation case. Over time, positions have been added to improve cycle times and implement a Landlord/Tenant Education Slum Prevention program. Case cycle times improved from 83 days in 2001-02 to 72 in 2002-03 as staff added in previous years was fully trained and gained expertise in performing their duties.

Case cycle times are expected to remain at 72 days.

Based on 2001 ICMA data, City of Phoenix Code Enforcement expenditures per Capita compares very favorably to those of other benchmark cities as noted below:

Code Enforcement Expenditures per Capita:

Austin – \$3.37

PHOENIX – \$5.03

Oklahoma City - \$5.29

Long Beach - \$8.03

San Jose - \$9.83

ECONOMIC DEVELOPMENT

Employment Growth Rate

Compared to Other Cities

This is a new measure.

In 2002, although Phoenix's employment growth rate was negative, the rate was better than for most of the following benchmark cities:

It is anticipated employment will continue to grow in 2003-04, although growth will be at a modest rate.

San Diego: 1.44%

San Antonio: 0.71%

Austin/San Marcos: 0.21%

PHOENIX (Maricopa): (0.16)%

Dallas: (0.26)%

Los Angeles/Long Beach: (0.44)%

Kansas City: (0.63)%

Fort Worth/Arlington: (0.66)%

San Jose: (3.46)%



| PROGRAM SERVICE LEVEL IN 1981-82 | SERVICE CHANGES THROUGH 2002-03 | SERVICE CHANGES FOR 2003-04 |
|---|---|--|
| COMMUNITY ENRICHMENT | | |
| HUMAN SERVICES | | |
| Head Start Program: In 1981-82, the Human Services Department served 865 children. | The program is expected to serve 3,195 children during 2002-03. | Under the 2003-04 budget, the program is expected to serve the same number of children. |
| School Based/School Linked Program: This program was not provided in 1981-82. | The program began in 1990 with five school sites. In 1996-97, the program operated from 20 school sites and served 6,900 youth. By 1997-98, the program operated from 25 school sites through additional grant funding and various partnerships and served 7,000 youth. In 2002-03, the program is expected to serve 7,700 youth. | No changes are included in the 2003-04 budget. |
| Senior Nutrition Program: In 1981-82, the Human Services Department served 376,000 congregate and home-delivered meals. | By 1998-99, the program served 499,000 congregate and home-delivered meals. In 2000-01, the program added a cook position and served 544,000 meals. For 2002-03 the program is expected to serve 571,900 congregate and home-delivered meals. | With the 2003-04 budget, the program is expected to continue to serve 571,900 congregate and home-delivered meals. |



| PROGRAM SERVICE LEVEL IN 1981-82 | SERVICE CHANGES THROUGH 2002-03 | SERVICE CHANGES FOR 2003-04 |
|-------------------------------------|------------------------------------|--------------------------------|
|-------------------------------------|------------------------------------|--------------------------------|

PARKS AND RECREATION

Swimming Pools:

In 1981-82, the City of Phoenix had 21 public swimming pools.

From 1982-83 through 1990-91, five new pools were added. In 1991-92, the Deer Valley pool was completed, and in 1996-97 the Paradise Valley pool was added, resulting in 28 total swimming pools. In 2000-01, staffing was added to provide year-round operation for the Paradise Valley Diving Well. No changes were included in the 2002-03 budget.

In 2003-04, staffing is added to operate Pecos Pool, increasing the total number of pools to 29.

Swimming Pool Season:

In 1981-82, swimming pools were open for 12 weeks during the summer months and closed at 7 p.m.

Since 1981-82, the swimming pool season has lasted as long as 14 weeks during the summer months, with six pools closing at 10 p.m. and the rest closing at 8 p.m. in 1986-87. Pools also were open on the weekends in May and three weekends in September in 1986-87. Budget considerations forced the City to shorten the season in 1987-88 by two weekends in September. The Kool Kids Program implemented in 1992-93 extended some pool hours. In 1996-97, eight lifeguards were added to maintain health and safety standards. The 1998-99 budget extended the Telephone Pioneer Pool season from four to six months. No changes were included in the 2002-03 budget.

All 29 swimming pools will close mid-August rather than Labor day weekend.

Children's Summer**Recreation Programs:**

In 1981-82, the City of Phoenix provided recreation programs at 110 schools for 40 hours during nine weeks in the summer months.

In 1995-96, the City of Phoenix provided 121 schools with 24-30 hours of programming for six to eight weeks during the summer months. Six sites were added in 1999-00 for a total of 127 program sites. No changes were included in the 2002-03 budget.

No changes are included in the 2003-04 budget.



| PROGRAM SERVICE LEVEL IN 1981-82 | SERVICE CHANGES THROUGH 2002-03 | SERVICE CHANGES FOR 2003-04 |
|---|--|--|
|---|--|--|

PARKS AND RECREATION

School Recreation Program

During School Year:

This service to 157 schools, offering 10.5 hours of programming a week for 32 weeks, was discontinued in 1981-82.

In 1994-95, two hours of after-school recreation programming from 3 to 5 p.m. were approved on weekdays for nine months each year at 24 sites citywide. In 1995-96, the program expanded to a total of 61 sites. In 1996-97, 11 new sites were added citywide for a total of 72 sites. In 1998-99, four new sites were added for a total of 76 sites. Also at these four sites, Saturday programming was provided from 10 a.m. to 4 p.m. In 1999-00, 25 new sites were added for a total of 101. The 2000-01 budget added 32 new sites, for a total of 133. The 2001-02 budget added another 33 sites, raising the total to 166. No changes were included in the 2002-03 budget.

No changes are included in the 2003-04 budget.

LIBRARY

Central Library:

In 1981-82, the Central Library was open 58 hours per week, with Sunday hours during the school year.

In 1984-85, the Central Library was open 70 hours a week during the school year, with evening service on Wednesdays and Thursdays. In 1986-87, Sunday hours during the summer were added. The new Burton Barr Central Library opened in May 1995, with 67 hours of operation, but with almost double the floor space. The 1998-99 budget restored Thursday evening hours raising the total weekly hours back to 70. The 2000-01 budget extended hours to 9 p.m. on school nights. This increase resulted in the Central Library being open 75 hours per week.

Effective March 31, 2003, Central Library hours are reduced by nine hours per week to 66 hours per week. Sunday hours are reduced to noon – 6 p.m., Monday through Thursday hours are reduced to 10 a.m. – 9 p.m. and Friday and Saturday hours are reduced to 10 a.m. – 6 p.m.



| PROGRAM SERVICE LEVEL IN 1981-82 | SERVICE CHANGES THROUGH 2002-03 | SERVICE CHANGES FOR 2003-04 |
|-------------------------------------|------------------------------------|--------------------------------|
|-------------------------------------|------------------------------------|--------------------------------|

LIBRARY

Branch Libraries:

In 1981-82, the City had nine branch libraries with five open 52 hours per week and four open 40 hours per week.

Branch library hours have varied since 1987-88, ranging from 48-75 hours per week.

In 1991-92, 732 weekly service hours were offered. In 1992-93, because of budget constraints, the total was reduced by 142 hours. Library employees volunteered furlough days to restore 16 hours in 1992-93. The 1994-95 budget increased branch library hours by 58 to 64 hours a week. In 1995-96, the budget restored 17 hours at six branches, bringing the total branch hours to 681 a week at 11 branch libraries. Sage Library opened in July 1997 for 70 hours a week bringing the total number of branch libraries to 12 and the total hours of operation to 751. Beginning in 1999, five branches increased hours to 9 a.m. - 9 p.m. Monday through Thursday and 9 a.m. - 6 p.m. on Fridays. Beginning June 1999, seven branches previously open on Sundays only during the school year were funded to open on Sundays year-round. The 2000-01 budget extended all branch hours to 9 p.m. on school nights. This increase resulted in all branches being open 75 hours per week, or a total of 900 weekly hours for all 12 branches.

Effective March 31, 2003, branch library hours are reduced by nine hours per week to 66 hours per week. Sunday hours are reduced to noon – 6 p.m., Monday through Thursday hours are reduced to 10 a.m. – 9 p.m. and Friday and Saturday hours are reduced to 10 a.m. – 6 p.m.

Comparisons with Other Library Systems:

This is a new measure.

Based on 2001 ICMA data, the Phoenix library system compared very favorably to other benchmark cities as noted below:

This trend is expected to continue during 2003-04.

Cost per item circulated:

PHOENIX - \$2.44

Tucson - \$3.29

San Antonio - \$3.39

Austin - \$4.75

Long Beach - \$7.15



| PROGRAM SERVICE LEVEL IN 1981-82 | SERVICE CHANGES THROUGH 2002-03 | SERVICE CHANGES FOR 2003-04 |
|---|--|---|
| WATER SERVICES | | |
| Water Bill Comparison for Single-Family Homes This is a new measure. | In a March 2003 survey, Phoenix's average monthly water bill compared favorably to the following benchmark cities: San Jose - \$33.44 Kansas City - \$31.37 Austin - \$28.56 Tucson - \$25.75 Dallas - \$24.83 Albuquerque - \$23.96 PHOENIX - \$19.64 San Antonio - \$15.62 | It is anticipated Phoenix water rates will continue this trend during 2003-04. |
| Wastewater Bill Comparison for Single-Family Homes This is a new measure. | In a March 2003 survey, Phoenix's average monthly wastewater bill compared favorably to the following benchmark cities: Austin - \$38.15 Dallas - \$26.57 Kansas City - \$19.81 San Jose - \$18.96 Albuquerque - \$18.45 San Antonio - \$16.84 Tucson - \$14.06 PHOENIX - \$13.60 | It is anticipated Phoenix wastewater rates will continue this trend during 2003-04. |



Budget Process, Council Review and Input, Public Hearings and Budget Adoption

Each year, the City of Phoenix budget is developed in conjunction with the Mayor and City Council, residents, City employees, the City Manager's Office and all City departments.

Modified Zero-Base Budgeting Process

The City of Phoenix uses a modified zero-base budgeting process. The City's fiscal year begins in July and ends in June of the following year. Each fall, departments submit an estimate (called the "base budget") of the costs associated with providing their current levels of service for the following year. Budget and Research staff review these base budget submissions to ensure that only the funding needed to continue current service levels is included in the department's base budget for the following year. This Budget and Research review is called a technical review because of its non-programmatic, line-item-by-line-item review. A department's base budget funding may differ from its current year funding for a variety of reasons. For example, an increase or decrease in electricity or postage rates would be reflected in the base budget.

In addition to base budget submissions, each January, departments identify 5 to 10 percent of their budget for potential elimination. These submissions are called base reductions and represent the department's lowest-priority activities. At the same time, departments are asked to submit any requests for new or expanded programs. These are called supplemental budget requests.

Base reductions and supplemental requests include all costs associated with a specific program or service. For example, costs for a swimming pool would include personnel costs for a lifeguard and other staff, chemicals for the pool, building maintenance and utilities.

When base reductions and supplemental requests are submitted, they are ranked together according to the department's priorities. The department's ranking indicates whether making a base reduction to add a new program would be possible, and also indicates which supplemental programs and base reductions are most critical to the department. City Council members also are asked to submit their own ideas for budget changes.

The City Council then provides input to the city manager for the preparation of the Trial Budget, which is submitted to City Council early each spring. The purpose of the Trial Budget is to enable the community and the City Council to comment on a balanced budget well before the city manager is required to submit his recommended budget to the City Council in mid-May. Public hearings are conducted throughout the community during day and evening hours. The City Council makes final budget recommendations after the city manager's preliminary budget is submitted.

2003-04 Budget Process

The 2003-04 budget development process and calendar was changed from prior years to quickly respond to the stagnant economy and declining tax revenues. In early October, city management alerted the Mayor and City Council that a steeper decline than anticipated in economic growth was occurring. Overall sales tax collections were 4 percent less than the same collections of a year ago. State-shared income taxes also decreased significantly due to declining employment

levels and reduced corporate and personal income. At the same time, City contributions to employee pension programs needed to be increased to offset declining investment income in the pension fund portfolios. The October forecast projected a deficit of \$54 million. This forecast assumed no further changes in the formulas used for allocating state-shared revenues. As the State of Arizona also faced significant budget deficits, the loss of the state-shared revenues was possible.

Considering the budget outlook, in mid-October 2002, City departments were asked to identify budget reductions equal to 20 percent of their current budget for management review. As departments had already cut \$23 million from their budgets in the previous fiscal year, it was difficult to identify items that would not directly affect services to the community. Departments also were asked to reprioritize their projects in the 2001 Bond Program to reduce the impact of future facility operating costs on the General Fund budget. Projects that did not result in operating costs, like land acquisition and design, were advanced in the capital improvement schedule and those with operating cost requirements were delayed until later years in the five-year program. Finally, departments were asked to request supplemental funding only for new bond-funded capital facilities that had already been bid or for critical and/or mandated services.

In January 2003, the city manager presented an early budget-balancing proposal to the Mayor and City Council. The budget included an updated forecast showing a \$72.3 million deficit. The 2003-04 budget assumed no significant improvement in sales tax growth rates until the 2004 calendar year. Next year's revenues were estimated to be about equal to this year's revenues. The 2003-04 budget included no new taxes or fees or any increase in existing taxes or fees.

On the expenditure side, \$32.3 million in additional, unavoidable costs were included in next year's budget. These costs include transitioning 56 police officers from federal grants to the General Fund, increased pension costs, increased jail costs, a 2003 election, necessary capital repairs that can no longer be

lease-purchase financed, and the full year's costs of operating new facilities added in the current year. In addition to these costs a modest allowance for inflation also was included.

To provide a balanced General Fund budget for 2003-04, the original budget proposal included cuts totaling \$60.7 million and eliminated 233.6 jobs. With the exception of the Police and Fire departments, the cuts represented 10 percent or more of each department's budget. The Police and Fire cuts represented 3.8 percent of their budgets. These reductions would be effective March 31 wherever possible. In this way, 15 months in savings would be achieved rather than just 12 months, reducing the number of programs or services that would have to be cut. The balance of the

deficit was made up from savings from reprioritizing the 2001 Bond Program which reduced the new facility operating costs, as well as reducing the General Fund contingency from 3 percent of operating expenses to 2.5 percent.

The balanced budget was presented at 13 budget hearings throughout the community from Jan. 27 to Feb. 12 to gain citizen input. A slide show was presented at each hearing describing the reductions, after which residents were invited to comment. In addition to the budget hearings, the City communicated the budget to the community through the "Phoenix Budget for Community Review" that outlined the service changes in the 2003-04 Budget as well as a calendar of budget hearing dates. This publication was inserted in the Jan. 26 edition of



Community members are given the opportunity to comment on a balanced budget before it is adopted by the Phoenix City Council. A newspaper insert about the proposed budget was distributed in The Arizona Republic and Arizona Informant, and a Spanish version was included in Prensa Hispana, La Voz and El Monitor.

The Arizona Republic and delivered to 230,000 households. The publication also was inserted in the Jan. 29 edition of the *Arizona Informant*. A Spanish version of this publication was included in editions of *Prensa Hispana*, *La Voz* and *El Monitor*. Copies of the inserts were also available at various locations throughout the city.

Presentations on the recommended budget also were made to boards and commissions, City employees and community organizations. This publicity of the budget allowed the Council and the community to comment on a balanced budget.

Based on input from the community hearings and Mayor and City Council, in February staff presented recommendations to balance the budget to the Mayor and City Council. The recommended budget included budget reductions totaling \$72 million including the elimination of 170 General Fund jobs. Changes reflected in the recommended budget included restoring graffiti program cuts as well as some Police,

Fire, Library and youth job cuts. The recommended budget restored Police details including the graffiti hotline, the mounted patrol, the youth alcohol squad, the community programs unit, the recruitment team and the special projects unit. In addition, 39 police officer positions were added to the budget to provide federally mandated security at Sky Harbor Airport. Twenty-five additional police officers were added using federal grants and seven school resource officers, which are largely paid for by the schools, also were added. Other changes included restoring weekend graffiti removal; restoring \$200,000 for the summer youth jobs program and \$100,000 for the purchase of library materials. These changes were funded largely by savings achieved by refinancing existing General Fund lease-purchase arrangements.

The budget also recommended \$3.6 million to fund the operating costs of capital facilities that would be coming online in 2003-04. These costs were offset by shifting \$7 million from secondary property taxes, used for debt service, to primary property taxes (a General Fund revenue source).

The capital operating costs included adding fire captain positions and police communication staff for the 800 MHz radio replacement project as well as funding to provide contractual maintenance of the system. Funds also were included to provide recreation services, security and maintenance of several new Parks facilities constructed with Preserve Initiative and 2001 Bond funds.

The budget also included recommendations for non-General Funds. Reductions in the Development Services, Civic Plaza and Golf Funds were recommended since these funds were also impacted by the current economic downturn. No reductions in service resulted from these efforts to keep expenditures in line with revenues. Reductions in the Solid Waste Fund, including the elimination of 34 jobs, reflected the bid award to collect garbage and recyclables in the southwest area to the private sector. A few budget additions also were recommended for the Water, Wastewater, Aviation and Transit 2000 Funds.



Tentative Budget Adoption - June 11

A public hearing and tentative budget adoption were held on June 11 in compliance with the Charter requirement that the budget be adopted no later than June 30. Upon tentative adoption, the budget becomes the City Council's program of services for the ensuing fiscal year. At this point, the Council may later decrease the budget, but only in certain instances may the budget be increased. Generally, the ability to increase the budget applies to expenditures exempted from the state expenditure limitation. Transfers between department appropriations are still permissible before the final budget is adopted.



Final Budget Adoption - June 25

A public hearing and final adoption will be conducted on June 25. Adoption of the property tax levy follows seven days later, on July 2, in accordance with state law.

The following chart is an overview of the 2003-04 budget calendar in tabular form.

| 2003-04 Budget Calendar | |
|--------------------------------|--|
| October 1 | 2002-03 General Fund Budget Status Report |
| January 9 | Bond Committee Review of Reprogrammed 2003-08 Capital Improvement Program |
| January 21 | 2003-04 Budget-Balancing Proposal presented to City Council |
| Week of January 26 | Budget Inserts in Local Newspapers |
| January 27 – February 12 | Community Budget Hearings |
| February 18 | Recommended Reductions to Balance the 2003-04 Budget presented to City Council |
| March 31 | Budget Reductions Implemented |
| April 15 | 2003-08 Preliminary Capital Improvement Program presented to City Council |
| June | 2001 Bond Committee Meeting to review final assessed valuations |
| June 11 | Tentative Adoption of 2003-04 Budget and 2003-08 Capital Improvement Program |
| June 25 | Final Budget Adoption |
| July 2 | Property Tax Adoption |





General Budget and Financial Policies

The City of Phoenix budget and financial policies are governed by Arizona State law, the City Charter and generally accepted accounting standards. These laws and standards set budget calendar dates, provide for budget control, describe ways to amend the budget after adoption and identify appropriate methods for budgeting, accounting and reporting. The Arizona Constitution establishes the property tax system and sets tax levy and assessed valuation limits. The constitution also provides annual expenditure limits and sets total bonded debt limits.

The City's resources and appropriations policies are extensions of these basic laws and follow generally accepted governmental budgeting and accounting standards.


GENERAL BUDGET LEGAL REQUIREMENTS

Arizona law (Title 42 Arizona Revised Statutes) generally requires the City Council to adopt a balanced budget annually by purpose of public expense. The primary property tax levy, when added together with all other available resources, must equal these expenditures. Therefore, no General Fund balances can be budgeted in reserve for subsequent fiscal years. Instead, an amount for contingencies (also commonly referred to as a "rainy day fund") is appropriated each year.

Annual Budget Adoption Requirements

The City Charter and state statutes contain legal deadlines and actions that must be followed in adopting the budget. In cases where the deadlines conflict, the City meets the earlier of the two dates. The deadlines and formal actions prescribed by both, as well as the actual or planned dates for the 2003-04 budget development process are as follows.

| Action Required | City Charter Prescribed Deadline | Arizona State Statute Prescribed Deadline | 2003-04 Budget Dates |
|---|---|--|----------------------------|
| City manager's recommended five-year Capital Improvement Program submitted to the City Council | At least 3 months prior to final date for submitting the budget or a date designated by the City Council. | Capital Improvement Program not required. | April 15 |
| City manager's proposed budget for ensuing year submitted to Council. | On or before the first Tuesday in June or a date designated by the City Council. | City manager budget not required. | May 8 |
| Publish general summary of budget and notice of public hearing that must be held prior to tentative budget adoption. | Publish in newspaper of general circulation at least two weeks prior to first public hearing. | No requirement. | Publish week of May 18 |
| Publish notice of public hearing which must be held prior to adoption of five-year Capital Improvement Program by resolution. | Publish in newspaper of general circulation at least two weeks prior to first public hearing. | No requirement. | Publish week of May 18 |
| Public hearing immediately followed by tentative budget adoption with or without amendment. | On or before the last day of June. | On or before the third Monday of July. | June 11 |



| Action Required | City Charter Prescribed Deadline | Arizona State Statute Prescribed Deadline | 2003-04 Budget Dates |
|---|---|---|------------------------------------|
| Publish summary of tentatively adopted budget and notice of public hearing which must precede final adoption. | No requirement. | Once a week for two consecutive weeks following tentative adoption. | Publish week of June 8 and June 15 |
| Public hearing including truth in taxation hearing immediately followed by final budget adoption. | No requirement. | No later than second Monday in August. | June 25 |
| Property Tax Levy Adoption. | No later than the last regularly scheduled Council meeting in July. | No sooner than seven days following final budget adoption and no later than the third Monday in August. | July 2 |

Budget Appropriation Control

Generally, no expenditure may be made nor liability incurred for a purpose not included in the budget even if additional funds become available. Appropriations are adopted by Council ordinance for major purposes of expenditure. The level of legal appropriation control is by fund except for the General and City Improvement funds. For these two funds, appropriations are adopted by broad-based purposes within the fund. An amount for contingencies is included as an appropriation in the General Fund and in other restricted funds.

Amendments to the Budget After Final Adoption

In certain instances, budget appropriations may be amended after budget adoption. All budget amendments require City Council approval. These are (1) allocations from any contingency appropriation, (2) supplemental appropriations for funds exempt from the expenditure limit contained in the Arizona Constitution and (3) appropriation reallocations. Informal reservations of contingencies are made throughout the fiscal year as approved by the City Council. Actual expenditures are recorded in the appropriate departmental budget. Contingency amounts actually needed are transferred by City Council formal action to the actual purpose of expenditures at the end of the fiscal year.

If funds are available, supplemental appropriations may be adopted for certain funds specifically excluded from the limitations in the Arizona Constitution. These funds are bond proceeds, Arizona Highway User Revenue, debt service and federal grants. At the end of each fiscal year, the City Council adopts an amendment to the appropriation ordinance for any necessary increases in these funds.

PROPERTY TAXES AND BONDED DEBT LIMIT

Arizona's property tax system was substantially revised in 1980 by voter-approved amendments to the Arizona Constitution. Arizona's current property tax system provides for two separate tax systems. A primary property tax is levied by the City to pay current operation and maintenance expense. Therefore, primary property tax revenue is budgeted and accounted for in the General Fund. A secondary property tax levy is restricted to the payment of debt service on long-term debt obligations. Therefore, secondary property tax revenue is budgeted as a Special Revenue fund and accounted for in the General Long-Term Obligations Account Group.

Primary Property Tax Restrictions

Primary property tax levies are restricted to an annual 2 percent increase plus an allowance for growth attributable to previously unassessed properties (primarily new construction and annexations). Growth in primary assessed valuation is restricted annually to the greater of 10 percent, or 25 percent of the difference between limited and full cash values, plus an allowance for previously unassessed properties. The City Charter requires that 8 cents of the primary property tax levy be allocated to the Parks and Playground Fund.

Secondary Property Tax Restrictions

Secondary property tax levies are restricted in their use to the payment of annual debt service on long-term debt obligations. Any over-collection of the secondary levy or any interest earned by invested secondary property tax funds must be used to reduce the following year's levy. No restrictions limit the annual growth in secondary assessed valuations. Secondary assessed valuations are intended, therefore, to follow general market conditions.

Generally, Arizona counties assess property and collect all property taxes. Proceeds are distributed monthly to the appropriate jurisdictions.

Bonded Debt Limit

Arizona cities can issue general obligation bonds for purposes of water, sewer, artificial light, open space, preserves, parks, playgrounds and recreational facilities up to an amount not exceeding 20 percent of the secondary assessed valuation. General obligation bonds can be issued for all purposes other than those previously listed up to an amount not exceeding 6 percent of the secondary assessed valuation.

ANNUAL EXPENDITURE LIMITATION

Since fiscal year 1982-83, the City of Phoenix has been subject to an annual expenditure limitation imposed by the Arizona Constitution. This limitation is based upon the City's actual 1979-80 expenditures adjusted for interim growth in population and inflation as measured by the gross domestic product implicit price deflator.

The constitution exempts certain expenditures from the limitation. The principal exemptions for the City of Phoenix are debt-service payments, expenditures of federal funds, certain state-shared revenues and other long-term debt obligations. Exemptions associated with revenues not expended in the year of receipt may be carried forward and used in later years. The 1979-80 expenditure base may be adjusted for the transfer of functions between governmental jurisdictions.

The constitution provides for four processes to exceed the expenditure limitation: (1) a local four-year home rule option, (2) a permanent adjustment to the 1979-80 base, (3) a one-time override for the following fiscal year, and (4) an accumulation for pay-as-you-go capital. All require voter approval.

City of Phoenix voters have approved five local home rule options in 1981, 1985, 1991, 1995 and 1999. Before 1999, the home rule options have generally excluded enterprise operations such as Aviation, Water, Wastewater and Solid Waste from the expenditure limitation. In 1999, the voters approved establishing the City's annual budget as the spending limit for the years 2000-01 through 2003-04. In 1981, the voters also approved the permanent annual exclusion of the following amounts for pay-as-you-go capital: \$5 million for Aviation, \$6 million for Water, \$6 million for Wastewater and \$2 million for General Fund street improvements.

Each year, the City uses only those exemptions needed to comply with the expenditure limitation. Exemptions not needed are carried forward to future years and used for future spending capacity.

BUDGET BASIS OF ACCOUNTING

The City's budget basis of accounting differs from generally accepted accounting principles (GAAP) used for preparing the City's annual financial reports. The major differences between the budget basis and GAAP basis are listed below. A reconciliation of budgetary and GAAP fund balances is provided each year in the Comprehensive Annual Financial Report.

1. Encumbrances (contractual commitments to be performed) are considered the equivalent of expenditures rather than as a reservation of fund balance.
2. Grant revenues are budgeted on a modified cash basis rather than an accrual basis.
3. Fund balances reserved for inventories, bonded debt and unrealized gains or losses on investments are not recognized in the budget.
4. In-lieu property taxes and central service cost allocations (levied against certain enterprise and special revenue funds) are budgeted as interfund transfers rather than expenses.
5. Certain expenditures and revenues accrued under GAAP are not recognized or treated in the same manner on a budgetary basis. For example, fixed assets are depreciated for some financial reporting and are fully expensed in the year acquired for budgetary purposes.
6. Some funds are presented in different fund types. For example, Cable Communications funds are considered a General Fund for budgetary purposes and a Special Revenue fund for financial reporting purposes.



GENERAL FINANCIAL POLICIES

In addition to the process-specific steps outlined in the previous section on the annual budget process, a number of administrative and City Council-approved policies provide guidance and direction to the budget development process. The following highlights the key appropriation, cost allocation and expenditure and revenue policies that are used in developing and administering the City budget.

Appropriation Policies

1. Appropriation Ordinances -

Three appropriation ordinances are adopted each fiscal year: (1) the operating funds ordinance, (2) the capital (bond) funds ordinance and (3) the re-appropriated funds ordinance. The last ordinance is required because prior-year encumbrances lapse for goods and services that have not been received at the end of the fiscal year and must be re-budgeted

2. Allocation of Appropriations -

Funds appropriated by the City Council are allocated to programs, offices, departments, divisions, sections, projects, and type of expenditure by the city manager or as delegated to the budget and research director to provide managerial control and reporting of budgetary operations.

3. Contingency Appropriations -

A contingency allowance is appropriated to provide for emergencies, unanticipated expenditures and revenue shortfalls. Expenditures may be made from contingencies only upon approval by the City Council with recommendation by the city manager. These amounts are also commonly referred to as “rainy day funds”.

In 1995-96, the City Council adopted a policy to achieve a contingency of 3 percent of operating expenditures in the General Fund. However, due to budget constraints, the City Council voted in January 2002 to reduce the 2003-04 General Fund contingency to 2.5 percent of operating expenditures. The Enterprise funds have varying levels of contingency funding consistent with the variability in revenues and expenditures associated with the services provided.

4. Appropriation Control -

Control of expenditures within appropriations is provided by Administrative Regulation. City departments prepare periodic revised expenditure estimates and the Budget and Research Department prepares budget status reports to advise the city manager and City Council.

Cost Allocation and Expenditure Policies

1. Central Services Cost Allocation -

The Finance Department calculates annually, using generally accepted full-cost accounting principles, the cost of central services provided to enterprise funds. Except for the Golf Fund, these allocated costs are recouped from the enterprise funds through fund transfers to the General Fund.

2. Administrative Cost Recovery -

The Finance Department prepares an indirect cost allocation plan that conforms to federal guidelines for grant reimbursement of administrative costs. The allocated costs are charged to the appropriate federal grant funds through a fund transfer to the General Fund.

3. Internal Cost Accounting Allocation -


Interdepartmental services performed by one department for another are credited to the performing department and charged to the receiving department to reflect the accurate costs of programs. The rates used are intended to reflect full costs in accordance with generally accepted cost accounting standards.

4. Enterprise Cost Recovery -

The enterprise functions of Aviation, Water, Wastewater and Solid Waste are fully self-supporting from rates, fees and charges. Cost recovery includes direct operation and maintenance expense, indirect cost allocation, capital expenditures and debt service where allowable. The Civic Plaza, while accounted for using enterprise accounting principles, is partially financed from rental and parking fees with the remainder coming from earmarked sales taxes. The Golf Fund, also accounted for using enterprise accounting principles, does not reimburse the General Fund for citywide indirect cost allocations. The Aviation Fund, also accounted for using enterprise accounting principles, does not pay in-lieu property taxes.

5. Employee Compensation Cost Allocation -

Costs for employee compensation including all wages, social security, industrial, health, life, unemployment, dental insurance and other personal allowances are allocated to each department. The future values of compensated absences are not included in the budget but are disclosed in the notes to the Comprehensive Annual Financial Report at year's end. Annual amounts for cash conversion of vacation, compensatory time and sick leave are included in the budget.



6. Pension Funding Allocation -

In addition to other employee compensation amounts, pension amounts are allocated to each department. The required employer contribution is determined actuarially to fund full benefits for active members and to amortize any unfunded actuarial liability as a level percent of projected member payroll over 20 years from the end of the current fiscal year.

7. Self-Insurance Cost Allocation -

With a few exceptions, the City is fully self-insured for general and automotive liability exposures. The major exceptions to self-insurance include airport operations, police aircraft operations and excess general and automotive liability for losses in excess of \$5 million. An independent actuary determines the self-insurance costs, which are combined with purchased policy costs and allocated to department budgets based on the previous five years' loss experience of each department.

8. Maintenance and Replacement of Rolling Stock and Major Facilities -

A multiyear plan is used to project the need for, and costs of, significant equipment and facility repair and component part replacement. The planning horizon for each asset category is matched to the life of the asset. Annually, that plan, combined with periodic physical inspections of facilities, vehicles and other equipment, is used to develop funding levels for inclusion in the budget. During economic downturns, these amounts are debt-financed with a repayment schedule matching the life of the asset.

Revenue Policies

1. City Sales and Use Taxes (Privilege License Taxes) -

The City Council may set the city sales tax rate by ordinance. The city sales tax rate on retail sales and most other categories is 1.8 percent. The rate varies for certain other specialized taxing categories as outlined in the Operating Fund Revenues section of this document.

2. Property Taxes -

By City Council policy, the combined city property tax rate is \$1.82 per \$100 of assessed valuation. The primary property tax levy is annually set at the previous year's levy amount plus an amount associated with new construction. The secondary levy is then set at an amount necessary to achieve a total \$1.82 tax rate.

3. In-Lieu Property Taxes -

In-lieu property taxes are charged to the Water, Wastewater, Solid Waste and Public Housing funds based upon acquisition or construction cost with the appropriate assessment ratio and current property tax rate applied. These amounts are calculated annually by the Finance Department.

4. Annual User Fee Review -

The city auditor conducts a comprehensive user fee review to project cost recovery rates, and then compares the projections to the established cost recovery policy. The rates are based upon generally accepted full-cost accounting standards. The city manager recommends expenditure reductions or fee adjustments to the City Council to maintain the established cost recovery policy.

5. Fines and Forfeitures -

The City Court has jurisdiction over establishing many of the fine and forfeiture fee schedules.

6. Parks and Recreation Fees and Charges -

The Parks and Recreation Board has jurisdiction over establishing schedules of charges for miscellaneous recreational facilities and advising the City Council on fees to be set for golf courses, tennis centers and swimming pools.

7. Interest Earnings -


Interest earnings from the investment of temporarily idle funds are credited to the fund generating the earnings.



BUDGETARY FUND STRUCTURE

The budget is made up of four distinct fund groups: General Purpose, Special Revenue, Enterprise and Federal funds.

General Purpose Funds



General and Excise – These revenues come from four major sources: local sales (privilege license) taxes, local primary property taxes, state-shared revenues, and user fees and other revenues. State-shared taxes include state-shared sales, vehicle license and income taxes. User fees and other revenues include development, cable and ambulance fees as well as interest earnings and fines. General funds are used to provide the most basic of city services: police, fire, parks, library, court, street maintenance (in combination with Arizona Highway User Revenue funds described on page 51) and neighborhood services. The excise tax fund is used to account for tax revenues ultimately pledged to pay principal and interest on various debt obligations.

Parks and Recreation – The City Charter requires that revenues and expenditures for all parks and playground activities be segregated. Revenues include a portion of the primary property tax levy and the use and rental of parks facilities.

Library – State law requires that funds received for library purposes are segregated in a separate library fund. Revenues include library fines and fees, which are used to help offset library expenditures.

Cable Communications – Included in this fund are the revenues and expenditures associated with administering cable television licensing and programming the government and education access channels.

City Improvement – This fund is used to account for lease/purchase payments between the City and the Civic Improvement Corporation.

Special Revenue Funds

Police and Fire Neighborhood Protection – These funds are used to account for the revenues and expenditures associated with a voter approved 0.1 percent increase in the sales tax in 1993. Revenue from the tax increase is earmarked for police and fire neighborhood protection programs and police Block Watch programs.

Parks and Preserves – This fund is used to account for the funds generated by the 0.1 percent increase in the sales tax approved by voters in 1999. The funds are to be used for the purchase of state trust lands for the Sonoran Desert Preserve Open Space, and the development and improvement of regional and neighborhood parks to enhance community safety and recreation.

Capital Construction – This fund is used to account for the utility taxes (2 percent) on telecommunication services that are to be used for pay-as-you-go capital projects.

Transit 2000 – This fund is used to account for the 0.4 percent sales tax dedicated to transit approved by voters on March 14, 2000. Also included in this fund are fare box collections and DASH (Downtown Area SHuttle) revenues.

Development Services – Fee revenues and expenditures associated with permitting and inspection services provided by the Development Services Department are maintained in this fund.

Court Awards – This fund includes revenue resulting from court awards of confiscated property under both the federal and state Organized Crime Acts. Expenditures are restricted to additional law enforcement programs in the Police and Law departments.

General Obligation Bond Interest and Redemption – In Arizona, property taxes are divided into two separate levies: primary and secondary. The primary levy can be used for general operating and maintenance expense. The secondary levy can only be used for payment of general obligation bond interest and redemption. Because of this restriction, secondary property tax funds are segregated in a Special Revenue fund.

Arizona Highway User Revenue

(AHUR) – AHUR funds are made up of state-collected gas taxes and a portion of other state-collected fees and charges such as registration fees, driver's licenses and motor carrier taxes. These funds can only be used for street maintenance and construction, and street-related debt service.

Local Transportation Assistance

(LTA) – This fund includes the Phoenix share of Arizona State Lottery proceeds distributed to cities and towns. These funds are to be used for mass transit operating and capital expenses. In addition, if \$23 million is distributed, then up to 10 percent may be used for cultural, educational, historical, recreational, or scientific facilities or programs. LTA funds used for non-transit purposes must be matched on a 50/50 basis with non-public cash.

Sports Facilities – This fund accounts for revenues generated from a 1 percent hotel/motel tax and a 2 percent tax on short-term vehicle rentals. These funds are designated for payment of debt service and other expenditures related to the downtown sports arena.

Public Transit – This fund is used to account for transit services that are paid by and provided for other cities or funded by the Regional Public Transportation Authority.

Community Reinvestment – Revenues and expenditures associated with economic redevelopment agreements are maintained in this fund.

Other Restricted Funds – This is a combination of funds used to segregate restricted revenues and related expenses. Included are Court Technology Enhancement Fees, Parks revenues such as Heritage Square and Tennis Center, and various other receipts and contributions received in small amounts and earmarked for restricted purposes.

Enterprise Funds

Enterprise funds include Water, Wastewater, Aviation, Solid Waste, Golf and Civic Plaza funds. With the exception of Civic Plaza funds, these funds come entirely from the fees and rents paid by those who use the services and facilities provided. Enterprise funds are “self-contained” and can only be used to pay for the costs associated with Enterprise fund-related services and programs. Therefore, fees are set to recover all costs associated with providing these services. These costs include day-to-day operations and maintenance, in-lieu property taxes, pay-as-you-go capital improvements and debt service.

Civic Plaza funds come from a combination of rental and parking income and earmarked sales taxes. Rental and parking fees provide about 23 percent of total revenues. The remaining 77 percent come from earmarked sales taxes. These earmarked taxes include a portion of the hotel, restaurant and bar, construction contracting and advertising taxes levied by the City. This tax stream has been earmarked to repay the debt issue for the Civic Plaza facility and to provide for operations and maintenance costs.

Federal Funds

Federal funds include Community Development Block Grant funds, Public Housing funds, Human Services funds and various other smaller grant allocations. Grant funds can be applied only to grant-eligible expenditures.